COMMENTARY **ICBC**

WILL ONTARIO AUTO INSURANCE RATE SURGE RESULT IN LESS PROTECTION?

A new report from an online rate comparison site that surveys trends in Ontario insurance shows that the estimated average auto insurance premium in Ontario rose 12% during the last two years. The increase from $1,555 in December 2021, to $1,744 in 2023, has been attributed to a variety of factors: "The lifting of COVID restrictions means drivers have mostly returned to their pre-pandemic routines. Meanwhile, operating costs for insurers are rising due to surging inflation, ongoing vehicle and parts shortages, longer wait times for repairs, an uptick in car theft, and a jump in the number and severity of claims filed."[1]

Some municipalities/regions recorded much higher rate increases. Brampton reported a two-year average 37% increase, while Toronto and Mississauga rose to second and third spots, with large increases of 19% and 17% respectively.[2]

The most common accident claim in the greater Toronto area tends to be the most expensive, which is an injury claim. Standard accident benefits in Ontario include medical bills not covered by the medical plan, lost wages, personal support workers, and other costs. Total injury payouts run into the tens of thousands of dollars.

The Politics of High Auto Insurance Rates

The high cost of auto insurance has been a regular feature of public concern in Ontario. Various governments have promised to address the issue, but most attempts to alter lower the cost of claims have failed to achieve their objectives.

In the run up to the June 2022 provincial election, the opposition NDP promised to freeze increases in premiums and would lower rates by 40% within two years. The Progressive Conservative government also made announcements to court the driving public's vote. It eliminated the annual fee to register a vehicle, saving southern Ontario vehicle owners $120 per year, but costing taxpayers about $1.0 billion.[3] It also said it

[1] https://rates.ca/resources/ontario-car-insurance-rates-jump-12-percent-2023

[2]

[3] The United Conservative government of Alberta adopted the NDP policy and froze auto insurance premiums for 2023.

would amend the insurance rules allow more coverage choice, and said it would crack down on fraud.[4]

Reducing Insurance to Reduce Cost?

In a unique approach to reducing the cost of insurance, the Ontario government passed a legislative amendment to allow more choice (meaning less coverage).The provincial regulator announced that in 2024 policyholders will have the choice of whether or not to purchase own-vehicle damage coverage if they are not at fault in a crash. Vehicle damage is covered through a first party or no-fault system, with the cost included in the premium.[5]

The Insurance Bureau of Canada supports the option of reduced coverage. But others believe it is a false economy. As reported in the *Canadian Underwriter* on 23 March 2023:

> One veteran broker waved a red flag about this option in a social media post on LinkedIn. In and of itself, the opt out of [damage] coverage doesn't address the core wish of a majority of consumers — lower premiums, he said.
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> "In all my years in the insurance industry, I have never had a client say, 'I wish I had no insurance coverage for [my] car when someone else hits my car,'" John Baizana, long-time insurance broker, said in a LinkedIn post.
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> "It is my opinion that this change does nothing to address consumer concerns regarding lowering auto insurance premiums," he said in a follow-up statement to *Canadian Underwriter*. "The introduction of this 'choice' does not address, and only distracts, from the real issues of fraud, waste, and inefficiencies in the system."
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> Uptake on this policy opt-out, he predicted, will be low.
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> "In reality, very few customers will opt-out of DCPD, and even fewer brokers or agents will recommend this to their customers. I believe a possible unintended consequence is that a very small segment of the population that shouldn't be opting out of this coverage will do so to save any dollar they can on insurance…
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> The largest impact [it] will have is on a segment of the lower-income population that may not be able to pay for the repair or replacement costs of their vehicle in

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4 https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_ontario_auto_insurance_and_election_12_may_2022/pdf/commentary_ontario_auto_insurance_and_election_12_may_2022.pdf

5 https://globalnews.ca/news/9639369/major-change-auto-insurance-ontario-affect-you/

the event of an accident — but need any savings they can on their insurance premiums," Baizana added.[6]

BC Government's Two-Year Rate Freeze

In this province, the NDP government has also sought to attain greater affordability in auto insurance rates. The May 2021, change to the no-fault liability model significantly reduced current and future injury claims costs, primarily by eliminating most pain and suffering claims. Some of the resulting savings was returned to policyholders through a 2021/22 rate reduction, while the balance was intended to rebuild the capital reserve.

On 12 December 2022, as part of his "100 Days of Action" campaign, Premier David Eby announced that ICBC rates would remain constant for 2023/24 and 2024/25, subject to the approval of the BC Utilities Commission.[7] The fundamental question is whether the freeze will enable ICBC to build and maintain an adequate capital reserve, or will the capital be dissipated once again to achieve the pollical objective of "affordability" for policyholders?

Unlike the national private property and casualty insurers, which have strict capital reserve requirements imposed by the national regulator, as a provincial Crown corporation ICBC is not bound by these federal rules.

In its Basic rate request for the next two years (with no rate increase) ICBC forecast that it would increase its capital reserve ratio (risk weighted assets over liabilities) from 92% in 2021/22 to 106% in 2024/25. However, most of this increase would result from lower liabilities, rather than greater assets. It remains to be seen whether the rate freeze is affordable.

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The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He is an intervener in the BC Utilities Commission's reviews of ICBC's and BC Hydro's rate requests.

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[6] https://www.canadianunderwriter.ca/brokers/what-ontarios-dcpd-change-means-for-insureds-brokers-1004232036/

[7] The government directive to the Commission left it with little discretion over the rate change. https://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_86_icbc_two_year_freeze_29_december_2022_3/pdf/occasional_paper_86_icbc_two_year_freeze_29_december_2022_3.pdf